
Defense Security Cooperation Reform Day: Security Cooperation for the Next Millennium

By

Craig M. Brandt,
Editor, *The DISAM Journal*

[The following represents a summary of the proceedings of the day-long Reform Day symposium. The keynote address of Principal Deputy Under Secretary of Defense for Policy James M. Bodner and the opening remarks of LTG Michael S. Davison, Director, DSCA, are included in their entirety following this article.]

In conjunction with DoD's Acquisition and Logistics Reform Week, DSCA in association with the National Defense Industrial Association sponsored Defense Security Cooperation Reform Day, a public symposium for the security cooperation community. Held on June 10, 1999, in Alexandria, Virginia, the symposium featured discussions by defense security assistance organizations, foreign purchasers, and defense industry concerning the effort to reform the way that security cooperation is conducted. The meeting was intended to demonstrate the initiatives which have been implemented recently as well as to solicit comments on issues still to be attacked. The audience included approximately 213 Department of Defense personnel, 32 representatives from other U.S. government organizations, 115 industry representatives, 53 foreign government representatives, several congressional committee representatives, and several members of the press.

Lieutenant General Lawrence Skibbie, USA (Ret.), president of NDIA, set the tone for the symposium in his opening remarks. Noting that the Revolution in Military Affairs had received great fanfare, he stated that this would be impossible without an accompanying Revolution in Business Affairs. The latter is represented by efforts towards acquisition reform, and in the case of security cooperation, the current moves toward process transparency and reengineering.



Lieutenant General Lawrence F. Skibbie, USA (Ret.), president of NDIA, served as the host for Security Cooperation Reform Day.

Lieutenant General Michael Davison, USA, Director, DSCA, recapped the Agency's efforts to date in revitalizing the security assistance program. So far two white papers on pricing, finance

and U.S. government cost recovery, and process transparency have already been published and are available on DSCA's web site, <http://dsca.osd.mil>. These represent the consensus of the agencies concerned on changes necessary in these areas. The third white paper on the arms transfer process has essentially been completed, and is awaiting approval at the Deputy Secretary of Defense level. This paper, too, should push the process forward as it deals with the agencies' "equities" in the disclosure and licensing arenas. A fourth white paper on business process reengineering and associated metrics is also in the works.

Even without a total agreement on process improvement, changes have already been made, such as the decision to permit more foreign customer visibility in the contracting process by allowing foreign representatives to sit as observers in the negotiations between DoD and industry. A DSCA memo on Letter of Offer and Acceptance visibility is ready for release. There has been a commitment by DSCA to create a process whereby the agency will work closely with industry on arms transfers, whether conducted under foreign military sales procedures or sold commercially.

It is accepted that a more efficient infrastructure must be created with a focus on cutting operating costs. Central to that effort is DSAMS which is aimed at consolidating thirteen separate management information systems throughout DoD. Although a long-term effort, the initial modules of DSAMS are already in place and LOAs are now being prepared using the case development module.

The arms sales process needs attention throughout its life cycle. From the very beginning, prior to any sale, the licensing process must be expedited so that industry can meet RFP dates and remain competitive with foreign suppliers. If the Department of State delays, then everyone in the process suffers. Still more energy will have to be applied to the implementation phase of arms sales, including case execution through to closure. This entails more accurate reporting of deliveries and increased monitoring throughout the process so that cases can be closed earlier and funds on deposit returned to the purchaser.

Faced with an increasing number of programs only marginally related to foreign military sales, DSCA must resolve some issues of recovering the cost of operations. For example, with drawdowns of military material, support for direct commercial sales, and handling of excess defense articles sold by the services, there is no or insufficient administrative surcharge to cover the cost of work performed.

Cost reimbursable LOAs are another annoyance for the purchaser. We must search for ways to move towards firm fixed price agreements that are dependent on hard pricing data. In both the above situations, we must create a method that will not put the U.S. taxpayer at risk.

As part of our reengineering, it is appropriate that we look at the FMS administrative surcharge. Set at three percent for twenty years, there perhaps is a more attractive alternative to such a rate for all sales. A tiered structure for the recovery of administrative overhead is being investigated. In all likelihood, such modifications to the current system will have to be fleshed out in legislative initiatives.

The goal of DSCA is to rid the FMS arrangement of the paternalism that punishes customers. Through our reengineering efforts, we hope to create a system that makes American arms transfer programs a preferred method of procurement for our friends and allies around the globe.

David R. Oliver, Principal Deputy Under Secretary of Defense for Acquisition and Technology, represented the acquisition community. He noted that the country had remained focused on our Cold War strategy for fifty years, a notable national achievement of consensus. Today, however, it is not as clear what our goal is. We are not all as focused as we should be. The challenge is how we are going to keep the peace for a hundred years.

During the Cold War, the world consisted of closed camps, and in order to preserve our technological advantage, we hid all information since we could not tell what the other side was doing. Today political ideologies are no longer the basic determinant of foreign policy. Now a more open world exists, where the mixing of legislation, business, and government has become the norm, represented by foreign interest in U.S. markets, joint reciprocal interests in global business and the international merging of business interests.

Presently, many different processes within the government and the military do not work, hence the need for change. We must change in order to be able to operate with our foreign partners. We must look for egregious cases where we have performed badly and have not been responsive to our allies to use as keystone to change the system. With real life examples at hand, we can stimulate change.

In order to reach our vision of maintaining the peace for one hundred years, we need to recognize the changes in the world which have placed greater emphasis on interoperability of equipment, communications and doctrine with our allies. Therefore, we need to change policies to accommodate those changes.

In order to get the foreign purchaser's perspective on FMS, a customer roundtable on "International Perspective on the FMS Process and Perceptions of Progress to Date on Reform" was scheduled. The participants included moderator Captain Simon Bunt of the Netherlands, and panelists Brigadier General Hamed S. Sarairoh, Defense Attaché of Jordan, Lieutenant Colonel John Wong, Counselor Defense Procurement of Republic of Singapore, Colonel Pieter Ven Zijl, Air and Assistant Military Attaché of the Republic of South Africa, Ken Perou, Chair FMS Procurement Group of the U.K., and Werner Kaelin, Counselor Defense Procurement of Switzerland.



Representing the viewpoints of the purchasers was a panel of (left to right) Colonel Pieter Ven Zijl of South Africa, Lieutenant Colonel John Wong of Singapore, Brigadier General Hamed S. Sarairoh of Jordan, panel moderator Captain Simon Bunt of Netherlands, Ken Perou of the United Kingdom, and Werner Kaelin of Switzerland.

The customers noted many of the benefits of using the FMS system as it currently exists. For example, purchases align countries with DoD, and they are able to take advantage of the latter's expertise. Buying American products enables purchasers to maintain state of the art equipment in their militaries. Joint training is also a big advantage for the buying countries. Nonetheless, all panel members had suggestions for improvement based on their own countries' experiences.

The most often cited deficiency was the length of time that it takes to close cases, meanwhile tying up the country's money in the trust fund.

The feeling was expressed that the FMS system has become unduly bureaucratic and complex, with the perceived focus to satisfy U.S. government requirements without regard for how these might affect relations with the purchaser. Thus, customer assistance is in a bureaucratic straightjacket, leaving many countries feeling that nobody really cares about the plight of the buyer.

There were a variety of issues surrounding pricing that were vexing the purchaser. All purchasers are interested in getting the right equipment for the right price. Fixed prices were seen as one measure of insuring price stability on major purchases. Customers are interested in the financial details of the case which have been kept from them in the past. The preference is for the FMS system to mirror commercial procurements in this respect, with far more display of the various cost elements of the sale. This pricing transparency will assist the buyer in determining whether the offer is competitive. Because there is a perception that a direct commercial purchase represents a better deal, customers want to know that the value added by the FMS system is worth the money. With improved evidence of cost details, even comparison between U.S. systems would be enhanced.

Third party transfers take far too long for approval. The bureaucratic process is too time consuming. With reference to the FMS system as a whole, it was remarked, "If you think it is hard to buy, wait till you try to sell!"

The technology disclosure process and associated export license procedures are in dire need of reform. When a request is being handled through the national disclosure process, the foreign customer is kept in the dark. With a totally unpredictable timeline, it is never clear where in the bureaucratic maze the application is, nor what the issues are regarding the lack of a decision on it. Also, it appears that anyone in the processing chain can kill a request by a simple non-concurrence without any justification. If U.S. officials were to maintain some lines of communication with the purchaser, it would provide the wherewithal for the purchaser to supply information that perhaps would influence the decision. Since the purchaser is out of the decision-making loop, there is no understanding as to what the delay is, and this causes undue frustration, especially if the country wants to compare the American system with that of another supplier.

The process of providing foreign visit requests is also tedious and time consuming. Rather than create clearances for the length of a program under existing LOAs or give an individual a long-term clearance, each clearance must be renewed annually. This gives the impression of a system based on distrust with no interest in customer service.

For countries faced with resource problems, it appears that the bureaucracy of the FMS system adds to the costs, thus making U.S. equipment more expensive and perhaps not affordable. Payments agreements such as offsets or counter-trade should be considered for emerging

countries that might not be able to afford FMS prices but are still interested in American equipment.

To get the viewpoint of defense industry, a roundtable “Building a Working Partnership: Progress to Date” consisted of various representatives from the Defense Policy Advisory Committee on Trade. The panel was moderated by John Richards of General Dynamics, and consisted of Robert Ingersoll of Boeing, Barry Abrahams of Raytheon, Steve Delp of United Defense, and James Frey of Litton. The general thrust of the panel’s remarks is that a better relationship needs to be developed between industry and DoD which will result in a partnership to satisfy our foreign policy and national security objectives. The panel recognized that this partnership would have to develop over a period of time. There should be no cases of the We-They syndrome.



The industry panel of (left to right) John Richards of General Dynamics, Robert Ingersoll of Boeing, and James Frey of Litton emphasized the need for a partnership between industry and government for the greatest impact on the global defense market.

Much of the discussion of reinvention efforts centered on the regulatory process, and simplification of the FMS process was of paramount importance. Since customers around the world are emphasizing quicker, better, and cheaper business dealings, speed in responding to customer requirements is a must if American firms are to remain competitive. Consequently, regulatory impediments that prevent industry from responding to environmental imperatives such as just-in-time inventories must be remedied. This should lead to simplifying the complex statutes and regulations, minimizing difficulties in interpretation, and easing the processing of licenses.

The export licensing procedures came under special criticism. In general, the State Department was singled out as creating roadblocks in the process. The Department does not keep good track of the status of license requests since there is no suspense system in place. There is a large number of requirements that must be complied with and a high number of items requiring licenses. It was suggested that some type of self-audit be permitted instead of repeated licensing when items have been previously exported to the same country. Technical Assistance Agreements represent an area where big improvements can be made to diminish the license burden.

There is substantial interest in industry concerning the recent proposed change to the DFARS to permit foreign customer participation in the negotiation of prices on an FMS sale. In general, there was reluctance on the part of industry to endorse such actions on the part of the customer. It was felt that negotiations on the requirements of the contract were acceptable, but that customer involvement in price negotiations represented a risk. Since industry provides significant pricing detail to the U.S. government, it was believed that protection of competition-sensitive data would be difficult if the foreign customer were provided such information. The loss of this proprietary data would harm the competitiveness of the supplier. On the other hand, the purchaser is naturally interested in obtaining as much detail as possible to assess projects and to satisfy its own parliaments and taxpayers that it is obtaining the best value.

The OSD Director of Defense Procurement plans to modify the DFARS to allow recovery of all costs of implementation of offsets. These costs should be recognized as part of the price along with those of administration.

While industry supports the DoD efforts to reinvent FMS, there is the fear that, although the security assistance leadership endorses change, middle management may be less enthusiastic in supporting new efforts if it apt to result in job loss.

The luncheon speaker, Lieutenant General John M. "Mike" McDuffie, Director for Logistics, J-4, the Joint Staff, spoke on the importance of focused logistics, and improving the level of multinational cooperative logistics. Acquisition and cross-servicing agreements are great tools to build cooperation; presently 39 agreements are in place with 63 other nations eligible. Small FMS sales to Macedonia, for example, became backbone to coalition efforts. General McDuffie also provided an overview of the operations logistics for the Kosovo/Macedonia efforts.

Bob Keltz, Deputy Director, DSCA, moderated an inter-agency panel of those with a role in security cooperation, including representatives from the Departments of Defense, State and Commerce as well as the Senate Foreign Relations Committee. The presentations highlighted the different perspectives of the varied participants in the security assistance process. Turk Maggi, Office Director for Plans/Policy/Analysis in the Bureau of Political-Military Affairs, Department of State, outlined the State Department's role in managing U.S. foreign affairs, including oversight of security cooperation. He admitted that exports, both military and non-military, are difficult to control. The State Department is concerned about the combining of certain non-military items which can result in a military capability that changes regional balance, especially in lesser developed countries. In response to criticism about the State Department's processing of export licenses, Maggi pointed out that, of the approximately 45,000 export licenses processed annually, 80 percent go through with no problem.

Marshall Billingslea, professional staff member of the Senate Foreign Relations Committee, noted that sales of military equipment, whether through FMS or DCS, bolster national security by strengthening coalition forces, creating deterrence in regions of interest, and promoting interoperability. Since chemical and biological threats are increasing, Billingslea recommended marketing systems designed to counter proliferation threats. Foreign military sales have a political significance, in that they demonstrate support for friendly governments. As a diplomatic tool, sales should strengthen pro-U.S. supporters. The proposed changes in FMS are oriented to sustainment of the defense industrial base. At the same time, industry must support U.S. overriding security principles.



Turk Maggi, Department of State, Bill Denk, Department of Commerce, and moderator Bob Keltz, Deputy Director of DSCA, discussed the different viewpoints of the various government agencies involved in the security cooperation process.

The IMET program increases interoperability and pro-U.S. sentiment, but, presently, IMET decisions appear to be made in a vacuum. There seems to be little effort to target IMET so that key countries benefit. In addition, IMET should all go to military education and training; today approximately 30 percent is aimed at non-military customers.

Billingslea stressed that there needs to be a prioritization of the list of security cooperation tasks and these should be targeted to the nations that count. For example, FMF has been cut far too much, but these funds should be targeted to special projects. Also, excess defense articles are offered to the first country that applies rather than to the country that needs the equipment the most. Finally, the defense export loan policy needs reform.

Representing the Department of Commerce, Bill Denk, Office Director of Strategic Industries and Economic Security, outlined Commerce's role in the cooperative process, which resides primarily in the MOU arena. Commerce plays a major role in international agreement development and implementation. As a result of the Cox Report, the number and types of items under Commerce control are changing.

Countries are developing an increasing dependency on commercial off-the-shelf items as a result of the commercial market focus and the cross-border supply dependency which follows globalization.

A challenge to defense industrial cooperation today is the transatlantic disparity in which European R&D is declining in both the defense and commercial sectors, and productivity is lower than that in the U.S. Without any increase in European spending, U.S. MOUs will in effect subsidize the European technology industrial base.

The mission of the Defense Threat Reduction Agency (DTRA) is to pull together disparate agencies that are concerned with eliminating the proliferation of weapons of mass destruction. Dave Tarbell, Director of Technology Security, noted that the Cox Report is driving more restrictive legislation, keeping those who are tasked to review licenses very busy. The effect was

to cause the average license review to take more than 40 days. Tiger Teams were formed to clear the queue and now less than one percent of the license applications are older than 60 days. The norm is now below 30 days. The intent is to put the entire licensing system into an electronic format to help expedite and track the licensing process.

FMS/DCS cases are becoming increasingly complex and customers want greater participation. The number of technical assistance agreements is growing. At the same time, applications are becoming much sloppier. Applicants can help facilitate the process by using plain English on license applications, indicating the license precedences, identifying precisely what the foreign competition is selling and to whom, and any subsidiaries involved and their relationship with the supplier.

Domenic Cipicchio, Deputy Director for Foreign Contracting, represented the Director of Defense Procurement. A recent policy change has created new rules for foreign customer participation in contract negotiations. The foreign representative may now observe negotiations under certain conditions. Industry must agree, and the customer may be required to agree to protect sensitive or proprietary data disclosed during the negotiations. Under no circumstances will the customer undertake separate negotiations that undermine the Contracting Officer's authority.

There is concern in the contracting community about the meaning of costs associated with the "implementation" of offsets, costs that are allowable overhead charges. It is not clear to many what is allowable and what is not. The charges to administer the offset agreements were allowable until 1995 when the DFARS was changed to permit recovery of "implementation" costs, that is, the full cost of the offset. This was the intent at the time, but many contracting officers were dubious of the rationale. We need to clarify that a U.S. contractor can recover the full offset costs.

When a foreign buyer is comparing alternative systems and has conducted a competition of these potential systems, we will move to eliminate the requirement for price information review for LOA development. The customer can get a full cost proposal from the U.S. contractor if it has already performed a source selection.

A panel consisting of representatives of each of the military services conducted a roundtable on the reform initiatives currently underway. LTG Michael Davison, Jr., Director, DSCA moderated the panel. MG Larry Smith, USA, Commander of USASAC, spoke about the specific initiatives being taken in the Army. The first is a systems review with the purpose of finding out where the people are and where the resources go. This is especially important since the Army is the most decentralized service in security cooperation. They are well down the road on this initiative. Next, there is the need to improve pricing. This is a problem for the Army as well as for the foreign customers. The goal is to get to near proposal quality pricing for the LOA. There is also the need to improve transparency of the LOA through such techniques as not-to-exceed prices which would mean that we have confidence in our cost data. We also have to focus on our partnership with industry. We need to approach security cooperation as Team America. This is important for U.S. foreign policy. General Smith also is looking at training programs for security assistance personnel and the possibility of a career field which will incorporate those specialized skills which go beyond logistics and finance.



Mr. Gibson LeBeouf, Deputy Director of the Navy International Programs Office, and Lieutenant General Michael Davison discussed current reinvention initiatives of the services.

In describing the Navy's reinvention activities, Gibson LeBeouf, Deputy Director of the Navy International Programs Office, noted the twelve working groups that have been constituted to study the issues surrounding security cooperation reinvention. He also stressed the need for a close relationship with industry if reinvention is to succeed. In order to insure that all views are recognized in defining the problem, both the foreign customers and industry have been part of the Navy's efforts.

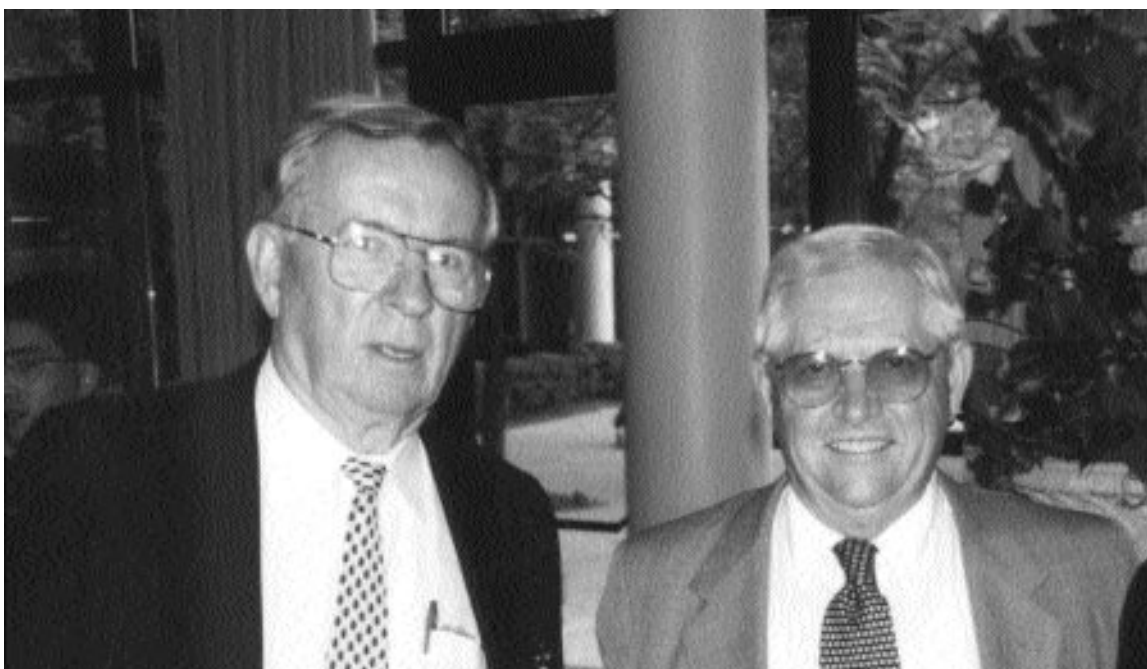
Representing the Air Force, Brigadier General Jeffrey Kohler, Assistant Deputy Under Secretary of the Air Force for International Affairs, spoke on a range of issues affecting the entire process of security assistance. Export licenses are still a problem, both for the Air Force and the customer. A solution to some of the difficulties would be to simplify the ITAR and the Munitions List. We must do something to decrease the disclosure process delay from weeks to days. The Air Force is struggling with financial management, since it lost too many people to DFAS. Consequently it is looking at reforms of the system to alleviate the difficulties. Training is and has been a problem. It would be nice if our procedures could be standardized across all services. We are investigating handbooks for Desk Officers to codify operating processes.

Major General Timothy Malishenko, USAF, Commander, Defense Contract Management System, spoke first of the contract administration fee charged the FMS customer. A buyer protection plan is what DCMS provides on an FMS procurement. First, DCMS insures quality assurance, using the international quality standard ISO 9000 to produce quality products. In addition, it keeps an eye on the producers to guarantee a quality process. In contract management, DCMS aims to achieve on-time deliveries and safe transportation. DCMS also monitors progress payments. In order to obtain fair prices, DCMS is in a good position to negotiate with the contractors, since it has a history of prices and products, it is familiar with business practices and it knows the overhead rates being charged throughout the industry.



During the service roundtable, Brigadier General Jeffrey Kohler, USAF, Major General Timothy Malishenko, USAF, and Jeff Jones of DLA discussed the reform initiatives currently underway.

Jeff Jones, Deputy Commander of the Defense Logistics Support Command of DLA, pointed out the mission change from managing common parts to major weapon system components. The FMS business is important to DLA, since 25% of DLA sales are international. To give the foreign customer a way of tracking parts, information on-line (WEBCAST) is expected within six months. DoD Electronic Mall will permit access by foreign customers by next fall. DLA offers purchasers advice on how they could lower their costs by reducing the requirements for special packaging. DLA is now selling parts for older systems to contractors in support of foreign sales.



NDIA members Colonel Dave Schumacher, USA (Ret.), former DISAM deputy commandant, and Lieutenant General Howard Fish, USAF (Ret.), DSAA director when DISAM was formed, continue to provide their knowledge and experience to the security cooperation community.

LTG Davison wrapped up the session by thanking all the participants and those who attended. He indicated that the exchange of ideas is important for the reinvention process. In order to achieve the desired results for the reengineering process, there will have to be a steady flow of communications among all the parties in the FMS process.

About the Author

Dr. Craig M. Brandt is the Institute's Director of Research, and is also the Editor of *The DISAM Journal*. A retired Navy Supply Corps Officer, he has 35 years experience in logistics and security assistance. He is the editor of *Military Assistance and Foreign Policy*. Dr. Brandt was awarded a Ph.D. in Political Science from the University of Cincinnati in 1985. He was formerly Chair, Department of Logistics Management, Graduate School of Logistics and Acquisition Management, Air Force Institute of Technology.